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In the

Supreme Court of the United States

OCTOBER TERM, 1970

No. 1210

TECHNICAL DEVELOPMENT CORPORATION and FRANKLIN F. OFFNER,

Petitioners,

vs.

BECKMAN INSTRUMENTS, INC.,

Respondent.

REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

MYRON LIEBERMAN,
EDWARD A. HAIGHT,
Attorneys for Petitioners.

Of Counsel:

LIEBERMAN, LEVY, BARON & STONE
130 North Wacker Drive
Chicago, Illinois 60606

HAIGHT, HOFFELDT & DAVIS
141 West Jackson Boulevard
Chicago, Illinois 60604

February 25, 1971.

The Schaffer Press, Inc.—ANdover 3-6830

In The

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TECHNICAL DEVELOPMENT CORPORATION and FRANKLIN F. OFFNER,

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REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

In its brief in opposition to the Petition, the respondent, Beckman, fails to meet the thrust of the reasons advanced by petitioners, TDC and Offner, in support of their contention that both the demands of public policy and the requirements of private contract law require retention of the licensee estoppel doctrine in the case of an exclusive license.*

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* Beckman's Statement of the Case contains alleged facts which relate solely to the question of the validity of the '305 Patent. These alleged facts are irrelevant and have no bearing on the question of whether Beckman should be estopped from challenging the validity of the '305 Patent. Accordingly, although petitioners disagree with many of these alleged facts, they will not now contest them.

In answer to the petitioners' contention that the demands of public policy require the retention of the licensee estoppel doctrine in the case of an exclusive license, Beckman argues that all licensees—exclusive and non-exclusive—have an economic incentive to challenge the validity of a licensed patent. TDC and Offner do not deny this. The crucial question, however, is not whether an exclusive licensee has the economic incentive to challenge validity. The crucial question is whether the benefits the public will receive from a successful challenge of validity by an exclusive licensee in a given case outweigh the pernicious effect on technological advancement which will result if *all* exclusive licensees are permitted to challenge validity. Nowhere in its brief does Beckman address itself to this question.

Beckman does not deny that the adoption of a rule permitting exclusive licensees to challenge validity will, in and of itself, jeopardize the relationship between the independent inventor and the large corporate exclusive licensee. Nor does it deny petitioners' argument that this harm far outweighs the benefit the public might receive from a successful challenge of validity in a given case by an exclusive licensee.

Rather than meet these arguments on their merits, Beckman contends that they are not supported by the record in the instant case (Resp. Br., pp. 10-11). By this type of approach, Beckman attempts to confine the applicability of petitioners' broad public policy arguments to Beckman's version of the facts in the instant case. The question before this Court, however, is not merely whether Beckman should be permitted to attack the validity of the '305 Patent but whether exclusive licensees in general should be permitted to attack the validity of licensed patents. This determination involves important questions

of public policy which must be considered in a broader framework than the facts now contained in the record in the instant case.*

In any event, Beckman overlooks the fact that, at the time the record in this case was made, there was no need to establish a record supporting petitioners' public policy arguments. At that time, this Court had not yet decided *Lear* and the District Court correctly relied on *Automatic Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950), to estop Beckman from challenging the validity of the '305 Patent.

Moreover, an examination of Beckman's contentions, based solely on Beckman's version of the record in the instant case, clearly demonstrates the weakness of its position and fully supports petitioners' public policy arguments. Beckman contends that the industry is using the invention claimed by the '305 Patent, but ignoring the patent itself (Resp. Br., p. 5). Beckman further contends that TDC and Offner are not enforcing the '305 Patent against the alleged industry-wide infringement and, therefore, only it has any economic incentive to challenge the '305 Patent (Resp. Br., p. 5). Beckman, however, fails to explain how the public will receive any benefit if its challenge is successful. Under Beckman's own contentions, prices of the products covered by the '305 Patent have

* Indeed, Beckman itself seems to recognize this. It not only resorts to a matter which is outside the record but which is in direct contradiction to the record. Beckman contends that "An exclusive licensee usually makes minimum payments irrespective of his utilization of the patent . . ." (Resp. Br., p. 9). The exclusive license in the instant case, however, does not, as already pointed out, require the payment of a minimum amount of royalties (Pet., p. 3). In contrast, the petitioners have not relied on any matter which is inconsistent with the record.

already been set—without regard to Beckman's royalty payments—by free competition in the industry and the effect of "cross-elasticity of demand." (Resp. Br., p. 9). There is no reason to believe—and Beckman does not claim—that it would lower its prices or that the public would receive any other benefit if the '305 Patent were declared invalid.

As in the case of petitioners' public policy arguments, Beckman does not address itself to the thrust of petitioners' argument that the demands of private contract law supporting the licensee estoppel doctrine are far more compelling in the case of an exclusive license than in a case of a non-exclusive license. It does not attempt to refute the fact that an exclusive licensee, if permitted to challenge validity, will be able to maintain inherently inconsistent positions—the free use of the licensed patent and the ability to exclude others from using the patent.

Instead, Beckman relies on *Bowers Mfg. Co., Inc.* v. *All-Steel Equipment, Inc.*, 275 F.2d 809 (9th Cir. 1960). *Bowers*, however, supports petitioners' argument rather than Beckman's. *Bowers* stands for the proposition that an exclusive license and a non-exclusive license are basically different and that each may require different treatment. This is the gist of petitioners' argument that the holding of *Lear* may not be extended to exclusive licenses without further consideration by this Court. In *Lear*, the public policy and contract considerations involved in permitting an exclusive licensee to challenge validity were not briefed, considered or decided.

Beckman makes much of the fact that this Court did not draw a distinction in *Lear* between exclusive and non-exclusive licenses. The simple answer to this, of course, is that an exclusive license was not before this Court

in *Lear*. Accordingly, this Court has not yet settled the question of whether an exclusive licensee should be permitted to challenge validity.

CONCLUSION

The Petition raises an important question of federal law which has not been, but should be, settled by this Court. Petitioners, therefore, respectfully submit that the Petition for Writ of Certiorari be granted.

Respectfully submitted,

Myron Lieberman
Edward A. Hilliott
Attorneys for Petitioners

Of Counsel:

Lieberman, Levy, Baron
120 North Wacker Drive
Chicago, Illinois 60606
STate 2-6420

Hamley, Howlett & Davis
141 West Jackson Boulevard
Chicago, Illinois 60604
922-6941

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